

Muskegon Community College

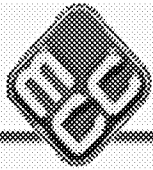
REPORT ON FINANCIAL STATEMENTS

Year ended June 30, 2006

Muskegon Community College

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Muskegon Community College

221 South Quarterline Road • Muskegon, Michigan 49442 • (231) 773-9131

Management's Discussion and Analysis

The discussion and analysis of Muskegon Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2006. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's management.

In December 1998, the Governmental Accounting Standards Board (GASB) released Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions", which modified the reporting of property tax revenue. In June 1999, GASB released statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." Changes in Statement No. 34 require a comprehensive one-line look at the entity as a whole including capitalization and depreciation of assets. In November 1999, GASB issued Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities", which applies these standards to public colleges and universities. The State of Michigan has adopted these standards and therefore, has revised and issued the *Manual for Uniform Financial Reporting for Michigan Public Community Colleges, 2001*.

The major changes from the fund basis financial statements presented by the College in the past and the "one-line look at the entity as a whole" are as follows:

- New reporting standards – Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows
- Recording of depreciation expense and accumulated depreciation on the Statement of Net Assets
- Capitalizing all capital expenditures on the Statement of Net Assets instead of recording as an expense
- Elimination of internal service charges and related expenses such as copy charges and maintenance fees
- Establishing an operating and non-operating basis of reporting whereby revenues that are charges for services are recorded as operating revenues. Essentially all other types of revenue are non-operating or other revenue
- Netting tuition and fees for scholarship allowances that were also reported as federal and state grant revenue

Muskegon Community College

Management's Discussion and Analysis

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the basic financial statements in the above-referred format, and notes to financial statements along with supplemental information.

Financial Highlights

In the fiscal year ended June 30, 2006, the College's expenses exceeded revenue and other support, creating a decrease in net assets of \$1,363,005.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole. The two statements report the College's net assets and changes in them. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Revenues and expenses are separated into categories of operating revenues and non-operating.

Following is a comparative analysis of the major components of the net assets of the College as of June 30, 2006 and 2005:

| Net Assets As of June 30 | | | | |
|--|--------------------|--------------------|----------------------|----------------------------------|
| (in thousands) | | | | |
| | <u>2006</u> | <u>2005</u> | <u>Change</u> | <u>Percent Change</u> |
| Assets | | | | |
| Current assets | \$ 19,924 | \$ 18,326 | \$ 1,598 | 8.72% |
| Non-current assets | | | | |
| Capital assets, net | 27,586 | 23,991 | 3,595 | 14.98% |
| Bond discount and issuance costs, net | 248 | 188 | 60 | 31.91% |
| Other | 7 | 6 | 1 | 16.67% |
| Total assets | <u>\$ 47,765</u> | <u>\$ 42,511</u> | <u>\$ 5,254</u> | 12.36% |

Muskegon Community College

Management's Discussion and Analysis

| | <u>2006</u> | <u>2005</u> | <u>Change</u> | <u>Percent Change</u> |
|--|------------------|------------------|-----------------|-----------------------|
| Liabilities | | | | |
| Current liabilities | \$ 4,718 | \$ 5,653 | \$ (935) | -16.54% |
| Long-term liabilities | | | | |
| Long-term debt obligations | 17,271 | 9,362 | 7,909 | 84.48% |
| Accrued sick leave | <u>2,411</u> | <u>2,767</u> | <u>(356)</u> | -12.87% |
| Total liabilities | 24,400 | 17,782 | 6,618 | 37.22% |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 13,237 | 14,424 | (1,187) | -8.23% |
| Restricted | 304 | 294 | 10 | 3.40% |
| Unrestricted | <u>9,824</u> | <u>10,011</u> | <u>(187)</u> | -1.87% |
| Total net assets | <u>23,365</u> | <u>24,729</u> | <u>(1,364)</u> | -5.52% |
| Total liabilities and net assets | \$ <u>47,765</u> | \$ <u>42,511</u> | \$ <u>5,254</u> | 12.36% |

Muskegon Community College

Management's Discussion and Analysis

Although unrestricted net assets are not subject to externally imposed restrictions, virtually all of the College's unrestricted net assets are designated for purposes to fulfill its mission including designations for capital projects (auxiliary funds - \$2,420,165); fund balance reserve (general fund - \$2,549,731); scholarships and grants (restricted fund \$103,522); and future health care cost increases (designated fund - \$410,000).

Summary Operating Results for the Year

(in thousands)

| | <u>2006</u> | <u>2005</u> | <u>Change</u> | <u>Percent Change</u> |
|--------------------------------|-------------------------|-------------------------|--------------------------|-----------------------|
| Operating revenues | | | | |
| Tuition and fees | \$ 6,715 | \$ 5,767 | \$ 948 | 16.44% |
| Grants and contracts | 5,469 | 5,851 | (382) | -6.53% |
| Auxiliary services | 707 | 808 | (101) | -12.50% |
| Other | <u>790</u> | <u>631</u> | <u>159</u> | <u>25.20%</u> |
| Total operating revenues | 13,681 | 13,057 | 624 | 4.78% |
| Total operating expenses | <u>32,838</u> | <u>29,895</u> | <u>2,943</u> | <u>9.84%</u> |
| Total operating loss | (19,157) | (16,838) | (2,319) | 13.77% |
| Non-operating revenues | | | | |
| State appropriations | 8,149 | 8,410 | (261) | -3.10% |
| Property taxes | 8,749 | 8,374 | 375 | 4.48% |
| Gifts | 270 | 124 | 146 | 117.74% |
| Investment income | <u>625</u> | <u>468</u> | <u>157</u> | <u>33.55%</u> |
| Net non-operating revenues | <u>17,793</u> | <u>17,376</u> | <u>417</u> | <u>2.40%</u> |
| Change in net assets | (1,364) | 538 | (1,902) | -353.53% |
| Net assets - beginning of year | <u>24,729</u> | <u>24,191</u> | <u>538</u> | <u>2.22%</u> |
| Net assets - end of year | \$ <u><u>23,365</u></u> | \$ <u><u>24,729</u></u> | \$ <u><u>(1,364)</u></u> | <u>-5.52%</u> |

Muskegon Community College

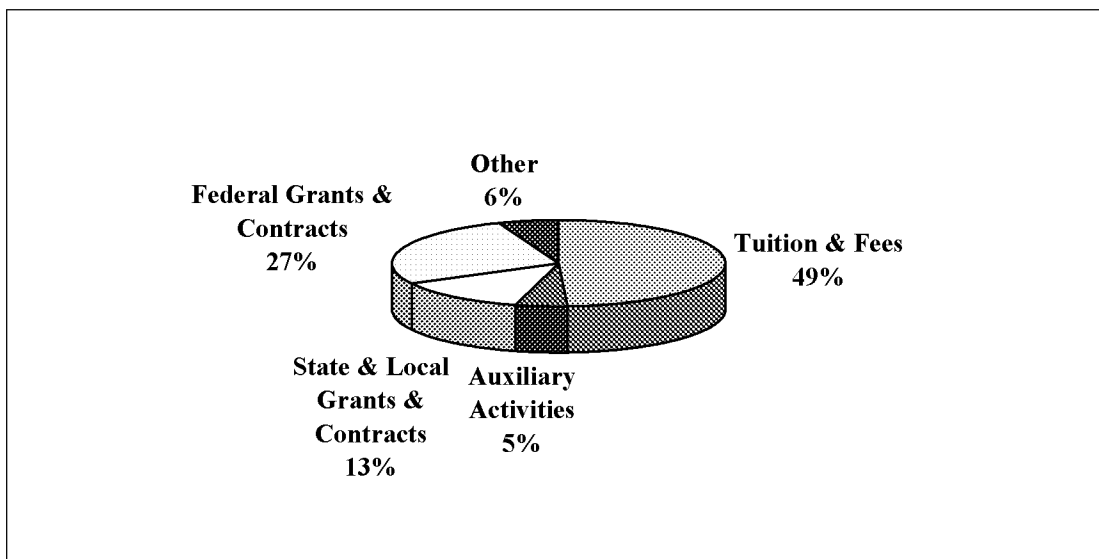
Management's Discussion and Analysis

Operating Revenue

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees and bookstore operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services. Operating revenue changes were the result of the following:

- Net student tuition and fee revenue increased \$948,413 from the prior year. The College increased tuition rates per contact hour ranging from 5.26% for in-district to 12.75% for out-of-state residents. In addition, the College instituted a \$4.00 per contact hour technology fee, which accounts for over 40% of the increase. Total contact hours decreased by approximately 2.7% over the prior year.
- Grants and contracts revenue decreased \$379,693. This decrease was in Title IV federal funds and Voc. Ed funding. An increase of over \$75,000 in Michigan Merit Awards and other state scholarships was offset by \$36,000 reductions in state job training activities.
- Miscellaneous revenue increased by \$159,144 mainly due to a refund check on our workers compensation policy for the period 2001-02 and a reimbursement on an insurance claim for a power outage.

The following is a graphic illustration of operating revenues by source:



Muskegon Community College

Management's Discussion and Analysis

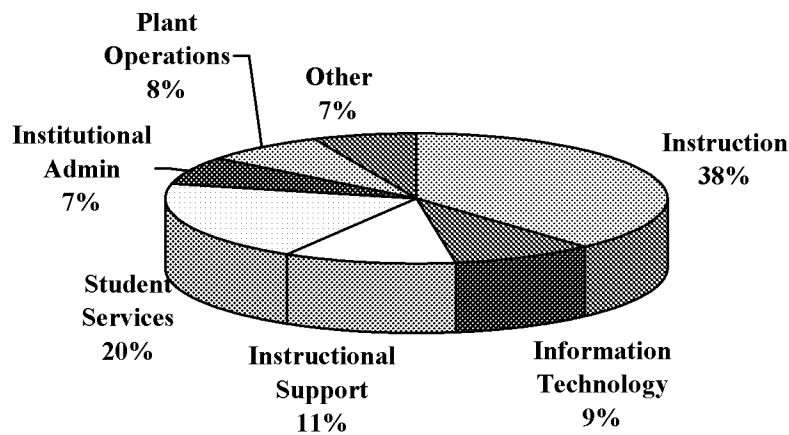
Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. Operating expenses for the fiscal year ended June 30, 2006 and 2005 consist of the following:

(in thousands)

| | <u>2006</u> | <u>2005</u> | <u>Change</u> | <u>Percent Change</u> |
|---|------------------|------------------|-----------------|-----------------------|
| Instruction | \$ 12,596 | \$ 13,361 | \$ (765) | -5.73% |
| Information technology | 2,995 | 1,041 | 1,954 | 187.70% |
| Public services | 274 | 216 | 58 | 26.85% |
| Instructional support | 3,635 | 3,219 | 416 | 12.92% |
| Student services | 6,611 | 6,870 | (259) | -3.77% |
| Institutional administration | 2,238 | 2,308 | (70) | -3.03% |
| Operation and maintenance of plant | 2,560 | 1,817 | 743 | 40.89% |
| Unallocated depreciation and amortization | 801 | 594 | 207 | 34.85% |
| Interest on debt | 742 | 365 | 377 | 103.29% |
| Other expenses | 386 | 104 | 282 | 271.15% |
| Total | <u>\$ 32,838</u> | <u>\$ 29,895</u> | <u>\$ 2,943</u> | 9.84% |

The following is a graphic illustration of operating expenses by source:



Management's Discussion and Analysis

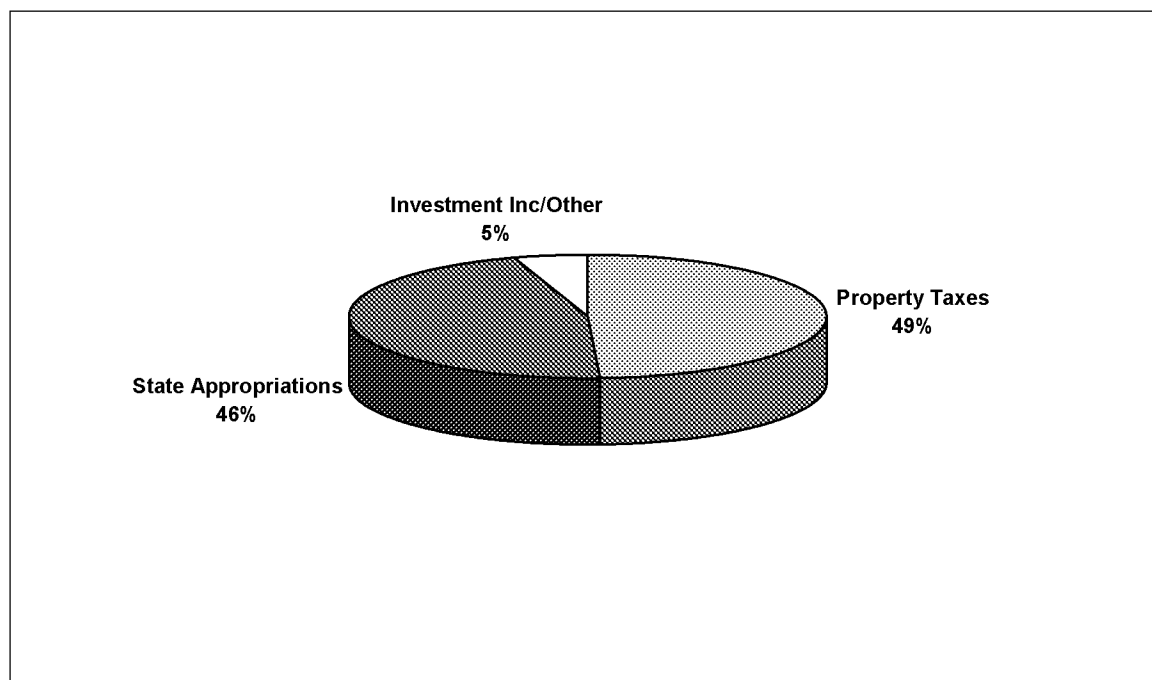
Non-operating Revenues

Non-operating revenues are all revenue sources that are primarily non-exchange in nature. They would consist primarily of state appropriations, property tax revenue, investment income (including realized and unrealized gains and losses), and grants and contracts that do not require any services to be performed.

Non operating revenue changes were the result of the following factors:

- State appropriations decreased 3.1% or \$261,000.
- Increase in taxable value for property within the taxing district resulting in increased property tax revenues of \$375,426 or a 4.5% increase.
- Investment income increased by \$156,598 or 33.4%, due to an increase in interest rates, and a shift in the type of investments held by the College.

The following is a graphic illustration of non-operating revenues by source:



Other Revenue

Other revenue consists of items that are typically nonrecurring, extraordinary, or unusual to the College. Examples would be state capital appropriations, additions to permanent endowments, and transfers from related entities. The College had no “other” revenue during the year.

Muskegon Community College

Management's Discussion and Analysis

Statement of Cash Flows

The primary purpose of this statement is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also may help users assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

Overall the College's year end cash position decreased by \$9,839,489. The primary reason for the decrease was that the College invested a significant amount of its cash equivalents during the year. Cash and investments in total increased by \$1,588,593.

Cash Flows for the Year Ended June 30

(in thousands)

| | <u>2006</u> | <u>2005</u> | <u>Change</u> | <u>Percent Change</u> |
|--|----------------------|-------------------------|--------------------------|------------------------------|
| Cash provided by (used for) | | | | |
| Operating activities | \$ (20,053) | \$ (15,599) | \$ (4,454) | 28.55% |
| Noncapital financing activities | 17,190 | 16,903 | 287 | 1.70% |
| Capital and related financing activities | 3,826 | (11,038) | 14,864 | -134.66% |
| Investing activities | <u>(10,803)</u> | <u>10,815</u> | <u>(21,618)</u> | -199.89% |
| Net change in cash | (9,840) | 1,081 | (10,921) | -1010.27% |
| Cash - beginning of year | <u>10,365</u> | <u>9,284</u> | <u>1,081</u> | 11.64% |
| Cash - ending of year | \$ <u><u>525</u></u> | \$ <u><u>10,365</u></u> | \$ <u><u>(9,840)</u></u> | -94.93% |

Muskegon Community College

Management's Discussion and Analysis

Capital Assets

At June 30, 2006, the College had over \$37.5 million invested in capital assets, with accumulated depreciation of \$10.0 million. Depreciation charges totaled \$787,675 for the current fiscal year. Details of these assets at June 30 are shown in the following table.

Fixed Assets for the Year Ended June 30

(in thousands)

| | <u>2006</u> | <u>2005</u> | <u>Change</u> |
|----------------------------|------------------|------------------|-----------------|
| Land | \$ 462 | \$ 462 | \$ - |
| Construction in progress | 368 | 4,131 | (3,763) |
| Land improvements | 517 | 356 | 161 |
| Buildings and improvements | 24,856 | 18,018 | 6,838 |
| Equipment | <u>1,383</u> | <u>1,024</u> | <u>359</u> |
| Total | \$ <u>27,586</u> | \$ <u>23,991</u> | \$ <u>3,595</u> |

Major capital additions completed this year, and the source of the resources that funded their acquisition included (in thousands):

| | |
|---|-----------------|
| Land improvements | \$ 202 |
| Equipment, from auxiliary funds | 321 |
| Equipment, used in instruction, from state and donated funds | 188 |
| Equipment, from bond proceeds | 393 |
| Buildings and improvements, from bond proceeds, net of prior year CIP | <u>2,911</u> |
| Total major additions | \$ <u>4,015</u> |

In the next year, the College has budgeted for equipment and building and improvements of approximately \$800,000, primarily for instructional equipment and minor facility renovations. Only those items with a cost of more than \$5,000 will be capitalized.

Muskegon Community College

Management's Discussion and Analysis

Debt

The College's long-term debt consists of \$52,644 in notes payable, related to equipment installment obligations, and \$17,955,000 in General Obligation – Limited Tax Bonds, issued in 2003 and 2005, for a total of \$18,007,644. This compares to \$9,724,273 as of June 30, 2005. The College's bond debt rating is AAA.

The 2003 bonds were issued for the purpose of constructing the CTC and a new library addition to the College's main campus. The CTC will be operated by the Muskegon Area Intermediate School District (MAISD), and the MAISD is obligated to make rental payments to the College which will approximate the projected debt service on the portion of bonds used to construct that facility.

The 2005 bonds were issued for the purpose of completing the new library addition and renovating/remodeling vacated space. More detailed information about the College's long-term liabilities is presented in the footnotes to the financial statement.

Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State. Because of limited economic growth and increased demand for state resources from federal mandates, the current state funding for the College is projected to remain flat for fiscal year 2006-07. Growth in property taxes is expected to be just slightly above the reduction in state aid.

Overall, the College's current financial and capital plans along with additional operating cost savings indicate that the College is positioned to maintain its present level of services.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

November 17, 2006

Board of Trustees
Muskegon Community College
Muskegon, Michigan

We have audited the accompanying financial statements of Muskegon Community College (College), as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated November 17, 2006, on our consideration of Muskegon Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BRICKLEY DELONG

Board of Trustees
November 17, 2006
Page 2

The management's discussion and analysis on pages i - x is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The consolidating fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The consolidating fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Muskegon Community College
STATEMENT OF NET ASSETS
Year ended June 30, 2006

ASSETS

CURRENT ASSETS

| | |
|-----------------------------------|------------|
| Cash and cash equivalents | \$ 525,166 |
| Short-term investments | 16,509,714 |
| Property taxes receivable | 106,495 |
| State appropriation receivable | 1,469,800 |
| Accounts receivable | 1,069,623 |
| Prepaid expenses and other assets | 242,703 |

| | |
|----------------------|------------|
| TOTAL CURRENT ASSETS | 19,923,501 |
|----------------------|------------|

| | |
|--------------------------|-------|
| STUDENT LOANS RECEIVABLE | 7,111 |
|--------------------------|-------|

| | |
|-----------------------------|------------|
| PROPERTY AND EQUIPMENT, net | 27,586,270 |
|-----------------------------|------------|

| | |
|--------------------------|---------|
| BOND ISSUANCE COSTS, net | 110,899 |
|--------------------------|---------|

| | |
|--------------------|---------|
| BOND DISCOUNT, net | 137,626 |
|--------------------|---------|

| | |
|--------------|------------|
| TOTAL ASSETS | 47,765,407 |
|--------------|------------|

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|--|-----------|
| Current portion of debt obligations | 737,000 |
| Accounts payable | 754,744 |
| Accrued interest payable | 64,445 |
| Accrued payroll and other compensation | 2,948,454 |
| Deposits | 33,299 |
| Deferred revenue | 180,355 |

| | |
|---------------------------|-----------|
| TOTAL CURRENT LIABILITIES | 4,718,297 |
|---------------------------|-----------|

| | |
|----------------------------|------------|
| LONG-TERM DEBT OBLIGATIONS | 17,270,644 |
|----------------------------|------------|

| | |
|--------------------|-----------|
| ACCRUED SICK LEAVE | 2,410,880 |
|--------------------|-----------|

| | |
|-------------------|------------|
| TOTAL LIABILITIES | 24,399,821 |
|-------------------|------------|

NET ASSETS

| | |
|---|------------|
| Invested in capital assets, net of related debt | 13,237,284 |
| Restricted | |
| Expendable | |
| Scholarships | 124,152 |
| Instructional department uses | 159,824 |
| Loans | 20,276 |
| Unrestricted | 9,824,050 |

| | |
|------------------|---------------|
| TOTAL NET ASSETS | \$ 23,365,586 |
|------------------|---------------|

The accompanying notes are an integral part of this statement.

Muskegon Community College
**STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS**
 Year ended June 30, 2006

REVENUES

Operating revenues

| | |
|--|--------------|
| Tuition and fees (net of scholarship allowances of \$2,018,703) | \$ 6,715,091 |
| Federal grants and contracts | 3,674,759 |
| State and local grants and contracts | 1,788,053 |
| Nongovernmental grants | 6,564 |
| Auxiliary activities | 706,535 |
| Miscellaneous | 790,436 |
| | <hr/> |
| Total operating revenue | 13,681,438 |

EXPENSES

Operating expenses

| | |
|------------------------------------|------------|
| Instruction | 12,595,745 |
| Information technology | 2,994,644 |
| Public services | 274,315 |
| Instructional support | 3,635,047 |
| Student services | 6,611,164 |
| Institutional administration | 2,237,681 |
| Operation and maintenance of plant | 2,560,122 |
| Depreciation and amortization | 801,391 |
| Interest on debt | 741,557 |
| Other expenditures | 385,960 |
| | <hr/> |
| Total operating expenses | 32,837,626 |

Operating loss (19,156,188)

NONOPERATING REVENUES

| | |
|-----------------------------|------------|
| State appropriations | 8,149,000 |
| Property tax levy | 8,749,398 |
| Gifts | 269,907 |
| Investment income | 624,878 |
| | <hr/> |
| Total nonoperating revenues | 17,793,183 |

Change in net assets (1,363,005)

NET ASSETS

| | |
|-----------------------------|---------------|
| Net assets at July 1, 2005 | 24,728,591 |
| | <hr/> |
| Net assets at June 30, 2006 | \$ 23,365,586 |
| | <hr/> <hr/> |

The accompanying notes are an integral part of this statement.

Muskegon Community College
STATEMENT OF CASH FLOWS
Year ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|----------------|
| Tuition and fees | \$ 6,715,091 |
| Grants and contracts | 5,674,516 |
| Payments to suppliers | (12,037,053) |
| Payment to employees | (21,901,048) |
| Loans issued to students | (1,241) |
| Auxiliary enterprise charges | 706,535 |
| Other | <u>790,436</u> |
| Net cash used for operating activities | (20,052,764) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|---|------------------|
| Local property taxes | 8,809,840 |
| Gifts and contributions for other than capital purposes | 269,907 |
| State appropriations | <u>8,110,190</u> |
| Net cash provided by noncapital financing activities | 17,189,937 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|------------------|
| Bond proceeds | 8,926,076 |
| Purchase of capital assets | (4,382,905) |
| Principal paid on capital debt | <u>(716,629)</u> |
| Net cash provided by capital and related financing activities | 3,826,542 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|---------------------|
| Purchase of investments | (11,428,082) |
| Interest on investments | <u>624,878</u> |
| Net cash used for investing activities | <u>(10,803,204)</u> |

| | |
|---|-------------|
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (9,839,489) |
|---|-------------|

| | |
|---|-------------------|
| CASH AND CASH EQUIVALENTS at July 1, 2005 | <u>10,364,655</u> |
|---|-------------------|

| | |
|--|--------------------------|
| CASH AND CASH EQUIVALENTS at June 30, 2006 | <u><u>\$ 525,166</u></u> |
|--|--------------------------|

The accompanying notes are an integral part of this statement.

Muskegon Community College
STATEMENT OF CASH FLOWS—CONTINUED
Year ended June 30, 2006

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES**

| | |
|--|-------------------------------|
| Operating loss | \$ (19,156,188) |
| Adjustments to reconcile operating loss to net cash used for operating activities | |
| Depreciation and amortization expense | 801,391 |
| (Increases) decreases in assets | |
| Accounts receivables (net) | 205,140 |
| Prepaid expenses and other assets | (235,437) |
| Student loans receivable | (1,241) |
| Increases (decreases) in liabilities | |
| Checks drawn on future deposits | (440,750) |
| Accounts payable | (661,929) |
| Accrued interest payable | 64,445 |
| Accrued payroll and other compensation | (418,021) |
| Deposits | 4,087 |
| Deferred revenue | <u>(214,261)</u> |
| Net cash used in operating activities | <u><u>\$ (20,052,764)</u></u> |

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – Muskegon Community College (College) is a Michigan community college whose financial statements have been prepared in accordance with the generally accepted accounting principles outlined in *Manual for Uniform Financial Reporting – Michigan Public Community Colleges, 2001*.

Muskegon Community College, established in 1926, is located in Muskegon, Michigan. The College provides educational services to residents of Muskegon County. A seven-member Board, which is elected by residents of Muskegon County, governs the College.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on application of the criteria, the College has no component units.

Significant accounting policies followed by the College are described below to enhance the usefulness of the financial statements to the reader:

Accrual Basis – The financial statements of the College have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Cash and Cash Equivalents – Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less.

Investments – Investments are recorded at fair value, based on quoted market prices.

Accounts Receivable – Accounts receivable are recorded net of allowance of uncollectible accounts of \$3,754.

Financial Instruments – Muskegon Community College's policy is to not require collateral for financial instruments subject to off-balance sheet credit risk. Any losses incurred on financial instruments due to the non-performance of other parties to the instruments would approximate the carrying value as of the balance sheet date.

Property and Equipment – Property and equipment are recorded at cost or, if acquired by gift, at the fair market value as of the date of acquisition. Capitalized property and equipment are assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year.

Depreciation is provided on the straight-line basis over the following useful lives:

| | |
|-------------------------------|------------|
| Land improvements | 20 years |
| Buildings and improvements | 50 years |
| Furniture and other equipment | 5-20 years |

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Property and Equipment – Continued

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Accrued Sick Leave – Accrued sick leave represents the accumulated liability to be paid under the College's current sick pay policy. Under the College's policy, employees earn sick time based on time of service and/or contract with the College. Employment contracts generally provide for the payment of one-half of unused sick leave to a maximum per individual at retirement, or for clerical and custodial staff, at termination.

Deferred Revenues – Revenues received prior to year end that are related to the next fiscal period are recorded as deferred revenues. These consist of \$178,854 of deferred revenue on the summer semester which began on June 26, 2006 and ends on August 17, 2006 and grants and entitlements received before the eligibility requirements are met.

Gifts and Pledges – Gifts are recorded when received and pledges are recorded when it is determined that the gift is probable of collection at its net present value.

Internal Service Activities – Both revenue and expenses related to internal service activities including office equipment, maintenance, and copying have been eliminated.

Property Taxes – The College's property tax is levied and becomes a lien on December 1, based on the assessed value listed as of the prior December 31. Local governmental units within the College's jurisdiction collect and remit taxes until March 1, at which time the uncollected real property taxes are turned over to the County of Muskegon as delinquent. Delinquent real property taxes are funded by County of Muskegon bond issues and remitted to the College. Delinquent personal property taxes are recorded as revenue when received.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE B—DEPOSITS AND INVESTMENTS

As of June 30, 2006, the College had the following investments:

| Investment Type | Fair value | Weighted average maturity (Days) | Standard & Poor's rating | Percent |
|-------------------------------------|----------------------|---|--------------------------------|-------------|
| Commercial paper | \$ 2,968,566 | 62 | A1/P1 | 18.7% |
| Commercial paper | 499,947 | 28 | A2/P2 | 3.2% |
| U.S. agency obligations | 9,211,459 | 138 | AAA | 58.1% |
| Money market | 3,166,081 | 36 | AAA | 20.0% |
| Total fair value | <u>\$ 15,846,053</u> | | | <u>100%</u> |
| Portfolio weighted average maturity | | <u>90</u> | | |

Interest rate risk. The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The College has no investment policy that would further limit its investment choices.

Concentration of credit risk. The College does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the College investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5 percent of the College's investments are in obligations issued by the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. These investments are 20.06 percent, 26.51 percent, and 11.55 percent, respectively, of the College's investments.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2006, \$924,956 of the College's bank balance of \$1,727,512 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, in the College's name.

Custodial credit risk - investments. The College does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The College is not authorized to invest in investments which have this type of risk.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—PROPERTY AND EQUIPMENT

Capital asset activity for the year ended June 30, 2006 was as follows:

| | Balance July 1, 2005 | Additions | Deductions | Balance June 30, 2006 |
|---|-------------------------|--------------|--------------|--------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 462,234 | \$ - | \$ - | \$ 462,234 |
| Construction in progress | 4,131,318 | 367,795 | 4,131,318 | 367,795 |
| Total capital assets, not being depreciated | 4,593,552 | 367,795 | 4,131,318 | 830,029 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 1,200,482 | 202,342 | - | 1,402,824 |
| Buildings and improvements | 24,648,753 | 7,402,506 | - | 32,051,259 |
| Equipment | 2,749,790 | 541,580 | - | 3,291,370 |
| Total capital assets, being depreciated | 28,599,025 | 8,146,428 | - | 36,745,453 |
| Less accumulated depreciation: | | | | |
| Land improvements | 845,083 | 40,605 | - | 885,688 |
| Buildings and improvements | 6,630,471 | 565,147 | - | 7,195,618 |
| Equipment | 1,725,983 | 181,923 | - | 1,907,906 |
| Total accumulated depreciation | 9,201,537 | 787,675 | - | 9,989,212 |
| Total capital assets, being depreciated, net | 19,397,488 | 7,358,753 | - | 26,756,241 |
| Capital assets, net | \$ 23,991,040 | \$ 7,726,548 | \$ 4,131,318 | \$ 27,586,270 |

Depreciation

Depreciation expense has been charged as unallocated depreciation.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE D—RETIREMENT PLANS

Employee Retirement System – Defined Benefit Plan

Plan Description – The College participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental, and vision. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing, MI 48909
1-800-381-5111

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The College is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 14.87 percent for the months July through September and 16.34 percent for the remainder of the fiscal year. The College contributions to MPERS for the year ended June 30, 2006, 2005, and 2004 were approximately \$1,872,000, \$1,811,000, and \$1,548,000, respectively and were equal to the required contribution for those years. Employee contributions to the MIP were approximately \$282,000.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE D—RETIREMENT PLANS—Continued

Employee Retirement System – Defined Contribution Plan

Effective, July 1, 1999, the Muskegon Community College Board of Trustees approved an Optional Retirement Plan (ORP) to be administered by TIAA-CREF. The ORP is available for all full-time faculty and full-time salaried administrative staff. Upon eligibility to participate in the ORP, employees have 90 days in which to elect participation in either the ORP or the MPSERS plan.

The ORP is a non-voluntary defined-contribution plan in which the College contributes 14.0 percent and the employee contributes 4.0 percent of the participating employee's includible compensation. Participants are immediately 100 percent vested in all ORP contributions. Participating employees elect their own allocation of contributions among the available investment vehicles offered by TIAA-CREF. ORP retirement benefits are based on the accumulation of contributions and the related investment income for each participant. Distributions of retirement benefits are available under the ORP when participants attain age 55. The College's contributions to the ORP were approximately \$345,000 and employee contributions were approximately \$98,000.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2006 was as follows:

| | Balance July 1, 2005 | Additions | Deductions | Balance June 30, 2006 |
|--|-------------------------|------------------|-------------|--------------------------|
| Bond issuance costs and discounts | \$ 200,397 | \$ 73,924 | \$ - | \$ 274,321 |
| Less accumulated amortization | <u>12,080</u> | <u>13,716</u> | <u>-</u> | <u>25,796</u> |
| Bond issuance costs and discounts, net | <u>\$ 188,317</u> | <u>\$ 60,208</u> | <u>\$ -</u> | <u>\$ 248,525</u> |

Amortization

Amortization expense has been charged as unallocated amortization.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE F— LONG-TERM OBLIGATIONS

Summary of Long-Term Obligations

The following is a summary of long-term obligations activity for the College for the year ended June 30, 2006:

| | Balance July 1, 2005 | Additions | Reductions | Balance June 30, 2006 | Due within one year |
|---------------------------------|-------------------------|---------------------|-------------------|--------------------------|------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 9,655,000 | \$ 9,000,000 | \$ 700,000 | \$ 17,955,000 | \$ 720,000 |
| Other obligations | 69,273 | - | 16,629 | 52,644 | 17,000 |
| | <u>\$ 9,724,273</u> | <u>\$ 9,000,000</u> | <u>\$ 716,629</u> | <u>\$ 18,007,644</u> | <u>\$ 737,000</u> |

General obligation bonds:

\$9,985,000 Community College Building and Site
Bonds of 2003; payable in annual installments
of \$365,000 to \$780,000 through May
2023; plus interest from 2.5% to 4.4%

\$ 9,310,000

\$9,000,000 College Facilities Bond of 2005;
payable in annual installments of
\$355,000 to \$580,000 through May
2025; plus interest from 3% to 4.125%

8,645,000

Other obligations:

Capital lease, payable in monthly installments
of \$1,028 through October 2008; including
interest at 8.67%

25,970

Capital lease, payable in monthly installments
of \$722 through June 2010; including interest
at 9.5%

26,674

\$ 18,007,644

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE F—LONG-TERM DEBT OBLIGATIONS—Continued

Summary of Long-Term Obligations—Continued

Annual debt service requirements to maturity for debt outstanding as of June 30, 2006 follows:

| Year ending June 30, | Principal | Interest | Total |
|-------------------------|----------------------|---------------------|----------------------|
| 2007 | \$ 737,000 | \$ 667,000 | \$ 1,404,000 |
| 2008 | 764,000 | 646,000 | 1,410,000 |
| 2009 | 781,000 | 624,000 | 1,405,000 |
| 2010 | 806,000 | 601,000 | 1,407,000 |
| 2011 | 830,000 | 574,000 | 1,404,000 |
| 2012-2016 | 4,655,000 | 1,487,000 | 6,142,000 |
| 2017-2021 | 5,680,000 | 2,253,000 | 7,933,000 |
| 2022-2025 | 3,754,644 | 497,237 | 4,251,881 |
| | <u>\$ 18,007,644</u> | <u>\$ 7,349,237</u> | <u>\$ 25,356,881</u> |

\$8,070,000 of the Community College Building Site Bonds of 2003 were issued to construct, furnish, and equip a Career Technical Center that is being leased to the Muskegon Area Intermediate School District (MAISD). Lease payments from the MAISD are approximately equal to the annual debt service requirements of this portion of the bonds.

NOTE G—RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the College carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The College participates in the Michigan Community College Risk Management Authority (risk pool) for claims relating to general and auto liability, motor vehicle physical damage, and property. Member contributions, which provide for losses incurred, reinsurance premiums, and risk management fees are allocated according to the actual costs incurred for each member. A member stop-loss fund provides for losses exceeding \$15,000 per occurrence or \$45,000 in the aggregate, on a year-to-year basis from the fund. Reinsurance agreements provide for loss coverage in excess of the amounts to be retained by the members. The Authority provides for withdrawal from membership at the end of any anniversary year.

NOTE H—CONTINGENCIES

The College participates in federal student financial aid grant and loan programs which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of grants or expenditures which may be disallowed by the granting agencies cannot be determined at this time although the College expects such amounts, if any, to be immaterial.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—SELF-INSURANCE

The College has a self-insured medical reimbursement plan for substantially all employees. In general, the College is liable for benefits up to \$60,000 per covered individual per year, with an approximate aggregate liability of \$1,609,770 per year. Benefit payments in excess of \$60,000 per covered individual or \$1,609,770 in aggregate are payable by an insurance company subject to a \$1,000,000 lifetime maximum per employee and aggregate liability. Benefits in excess of \$1,000,000 in aggregate or \$1,000,000 per employee, if any, would be the liability of the covered individual.

The College utilizes a third party administrator to administer benefits payable under this plan. Reimbursement payments to the third party administrator, which have been charged to expense, approximated \$2,403,000 for the year ended June 30, 2006.

NOTE J—MUSKEGON COMMUNITY COLLEGE FOUNDATION

The Muskegon Community College Foundation (Foundation) was established in 1971 for the purpose of:

- a. Securing gifts of loans of property, works of art, historical papers, etc.
- b. Fundraising by means of loans, gifts, grants and bequests for a broad variety of purposes, including instruction and research, establishment of endowments, scholarships, fellowships, professorships, academic chairs, and cultural events and for buildings, equipment, and other facilities of all kinds.
- c. To act in the capacity of a fiduciary or trustee in carrying out these purposes and objectives.

The College is the sole beneficiary of any donations to, or funds raised by, the Foundation. At June 30, 2006, the stated value of the net assets of the Foundation approximated \$1,220,000. These assets are not included in the financial statements of the College because the College does not appoint a voting majority of the Foundation's Board of Directors, is not fiscally dependent on the Foundation, is not involved in the management of the Foundation and the Foundation can direct resources at its discretion. Contributions to and payments on behalf of the College by the Foundation approximated \$117,000 in the fiscal year ending June 30, 2006.

The College provides personnel support, supplies and equipment to the Foundation. The management of the College should be contacted for copies of the Foundation's financial statements.

NOTE K—SUBSEQUENT EVENT

In July 2006, the College approved replacement of all exterior lighting on campus for approximately \$392,000.

SUPPLEMENTAL INFORMATION

Muskegon Community College
CONSOLIDATING BALANCE SHEET
June 30, 2006

| | Consolidated total | General Fund | Designated Fund | Auxiliary Activities Fund | Expendable Restricted Fund | Student Loan Fund | 2003 Debt Service Fund | 2005 Debt Service Fund | Plant Fund |
|--|-----------------------|-----------------|--------------------|---------------------------------|----------------------------------|-------------------------|------------------------------|------------------------------|---------------|
| ASSETS | | | | | | | | | |
| CURRENT ASSETS | | | | | | | | | |
| Cash and cash equivalents | \$ 8,043,903 | \$ 504,683 | \$ 410,000 | \$ 2,443,284 | \$ 35,701 | \$ 13,165 | \$ - | \$ - | \$ 4,637,070 |
| Short-term investments | 16,509,714 | 13,286,087 | - | - | - | - | - | - | 3,223,627 |
| Property taxes receivable | 106,495 | 106,495 | - | - | - | - | - | - | - |
| State appropriation receivable | 1,469,800 | 1,469,800 | - | - | - | - | - | - | - |
| Accounts receivable | 1,069,623 | 571,062 | - | 139,258 | 359,303 | - | - | - | - |
| Prepaid expenses and other assets | 242,703 | 242,703 | - | - | - | - | - | - | - |
| TOTAL CURRENT ASSETS | 27,442,238 | 16,180,830 | 410,000 | 2,582,542 | 395,004 | 13,165 | - | - | 7,860,697 |
| STUDENT LOANS RECEIVABLE | 7,111 | - | - | - | - | 7,111 | - | - | - |
| PROPERTY AND EQUIPMENT | | | | | | | | | |
| Land and improvements | 1,865,058 | - | - | - | - | - | - | - | 1,865,058 |
| Buildings and improvements | 32,051,259 | - | - | - | - | - | - | - | 32,051,259 |
| Construction in progress | 367,795 | - | - | - | - | - | - | - | 367,795 |
| Equipment | 3,291,370 | - | - | - | - | - | - | - | 3,291,370 |
| Allowance for depreciation | (9,989,212) | - | - | - | - | - | - | - | (9,989,212) |
| TOTAL PROPERTY AND EQUIPMENT | 27,586,270 | - | - | - | - | - | - | - | 27,586,270 |
| BOND ISSUANCE COSTS, NET OF AMORTIZATION | 110,899 | - | - | - | - | - | - | - | 110,899 |
| BOND DISCOUNT, NET OF AMORTIZATION | 137,626 | - | - | - | - | - | - | - | 137,626 |
| TOTAL ASSETS | \$ 55,284,144 | \$ 16,180,830 | \$ 410,000 | \$ 2,582,542 | \$ 395,004 | \$ 20,276 | \$ - | \$ - | \$ 35,695,492 |

Muskegon Community College
CONSOLIDATING BALANCE SHEET—CONTINUED
June 30, 2006

| | Consolidated total | General Fund | Designated Fund | Auxiliary Activities Fund | Expendable Restricted Fund | Student Loan Fund | 2003 Debt Service Fund | 2005 Debt Service Fund | Plant Fund |
|---|-----------------------|-----------------|--------------------|---------------------------------|----------------------------------|-------------------------|------------------------------|------------------------------|---------------|
| LIABILITIES AND NET ASSETS | | | | | | | | | |
| CURRENT LIABILITIES | | | | | | | | | |
| Checks drawn on future deposits | \$ 7,518,737 | \$ 7,518,737 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Current portion of debt obligations | 737,000 | - | - | - | - | - | - | - | 737,000 |
| Accounts payable | 754,744 | 604,275 | - | 104,937 | 45 | - | - | - | 45,487 |
| Accrued interest payable | 64,445 | - | - | - | - | - | - | - | 64,445 |
| Accrued payrolls and other compensation | 2,948,454 | 2,916,852 | - | 24,141 | 7,461 | - | - | - | - |
| Deposits | 33,299 | - | - | 33,299 | - | - | - | - | - |
| Deferred revenue | 180,355 | 180,355 | - | - | - | - | - | - | - |
| TOTAL CURRENT LIABILITIES | 12,237,034 | 11,220,219 | - | 162,377 | 7,506 | - | - | - | 846,932 |
| LONG-TERM DEBT OBLIGATIONS | 17,270,644 | - | - | - | - | - | - | - | 17,270,644 |
| ACCRUED SICK LEAVE | 2,410,880 | 2,410,880 | - | - | - | - | - | - | - |
| TOTAL LIABILITIES | 31,918,558 | 13,631,099 | - | 162,377 | 7,506 | - | - | - | 18,117,576 |
| NET ASSETS | | | | | | | | | |
| Invested in capital assets, net or related debt | 13,237,284 | - | - | - | - | - | - | - | 13,237,284 |
| Restricted | | | | | | | | | |
| Expendable | | | | | | | | | |
| Scholarships | 124,152 | - | - | - | 124,152 | - | - | - | - |
| Instructional department uses | 159,824 | - | - | - | 159,824 | - | - | - | - |
| Loans | 20,276 | - | - | - | - | 20,276 | - | - | - |
| Unrestricted | 9,824,050 | 2,549,731 | 410,000 | 2,420,165 | 103,522 | - | - | - | 4,340,632 |
| TOTAL NET ASSETS | 23,365,586 | 2,549,731 | 410,000 | 2,420,165 | 387,498 | 20,276 | - | - | 17,577,916 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 55,284,144 | \$ 16,180,830 | \$ 410,000 | \$ 2,582,542 | \$ 395,004 | \$ 20,276 | \$ - | \$ - | \$ 35,695,492 |

Muskegon Community College
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS
For the year ended June 30, 2006

| | Consolidated total | Eliminations | General Fund | Designated Fund | Auxiliary Activities Fund | Expendable Restricted Fund | Student Loan Fund | 2003 Debt Service Fund | 2005 Debt Service Fund | Plant Fund |
|---|-----------------------|----------------|-----------------|--------------------|---------------------------------|----------------------------------|-------------------------|------------------------------|------------------------------|---------------|
| REVENUES | | | | | | | | | | |
| Operating revenues | | | | | | | | | | |
| Tuition and fees (net of scholarship allowances of \$2,018,703) | \$ 6,715,091 | \$ (2,018,703) | \$ 8,733,794 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Federal grants and contracts | 3,674,759 | - | 3,329 | - | - | 3,671,430 | - | - | - | - |
| State and local grants and contracts | 1,788,053 | - | 65,703 | - | - | 1,722,350 | - | - | - | - |
| Nongovernmental grants | 6,564 | - | - | - | - | 6,564 | - | - | - | - |
| Auxiliary activities | 706,535 | - | - | - | 706,535 | - | - | - | - | - |
| Miscellaneous | 790,436 | - | 152,353 | - | - | - | 757 | 558,605 | - | 78,721 |
| Total operating revenue | 13,681,438 | (2,018,703) | 8,955,179 | - | 706,535 | 5,400,344 | 757 | 558,605 | - | 78,721 |
| EXPENSES | | | | | | | | | | |
| Operating expenses | | | | | | | | | | |
| Instruction | 12,595,745 | | 12,357,826 | - | 864 | 237,055 | - | - | - | - |
| Information technology | 2,994,644 | | 2,428,383 | - | - | - | - | - | - | 566,261 |
| Public services | 274,315 | - | 226,949 | - | 42,412 | 4,954 | - | - | - | - |
| Instructional support | 3,635,047 | - | 3,616,647 | - | - | 18,400 | - | - | - | - |
| Student services | 6,611,164 | (2,018,703) | 3,098,451 | - | 325,245 | 5,206,171 | - | - | - | - |
| Institutional administration | 2,237,681 | - | 2,184,159 | - | 53,522 | - | - | - | - | - |
| Operation and maintenance of plant | 2,560,122 | - | 2,211,629 | - | 348,493 | - | - | - | - | - |
| Depreciation and amortization | 801,391 | - | - | - | - | - | - | - | - | 801,391 |
| Interest on debt | 741,557 | - | - | - | - | - | - | 350,970 | 276,423 | 114,164 |
| Other expenditures | 385,960 | - | - | - | - | - | 125 | 225 | 113 | 385,497 |
| Total operating expenses | 32,837,626 | (2,018,703) | 26,124,044 | - | 770,536 | 5,466,580 | 125 | 351,195 | 276,536 | 1,867,313 |
| OPERATING INCOME (LOSS) | (19,156,188) | - | (17,168,865) | - | (64,001) | (66,236) | 632 | 207,410 | (276,536) | (1,788,592) |

Muskegon Community College
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS—CONTINUED
For the year ended June 30, 2006

| | Combined total | Eliminations | General Fund | Designated Fund | Auxiliary Activities Fund | Expendable Restricted Fund | Student Loan Fund | 2003 Debt Service Fund | 2005 Debt Service Fund | Plant Fund |
|------------------------------|----------------------|--------------|---------------------|--------------------|---------------------------------|----------------------------------|-------------------------|------------------------------|------------------------------|----------------------|
| NONOPERATING REVENUES | | | | | | | | | | |
| State appropriations | \$ 8,149,000 | \$ - | \$ 8,149,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Property tax levy | 8,749,398 | - | 8,749,398 | - | - | - | - | - | - | - |
| Gifts | 269,907 | - | - | - | - | - | - | - | - | 269,907 |
| Investment income | 624,878 | - | 431,050 | - | - | - | 381 | 178 | 11,978 | 181,291 |
| Total nonoperating revenues | <u>17,793,183</u> | <u>-</u> | <u>17,329,448</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>381</u> | <u>178</u> | <u>11,978</u> | <u>451,198</u> |
| Change in net assets | (1,363,005) | - | 160,583 | - | (64,001) | (66,236) | 1,013 | 207,588 | (264,558) | (1,337,394) |
| Transfers in (out) | <u>-</u> | <u>-</u> | <u>(622,342)</u> | <u>-</u> | <u>(192,466)</u> | <u>72,119</u> | <u>-</u> | <u>(221,869)</u> | <u>264,558</u> | <u>700,000</u> |
| Net change in net assets | (1,363,005) | - | (461,759) | - | (256,467) | 5,883 | 1,013 | (14,281) | - | (637,394) |
| Net assets—beginning of year | <u>24,728,591</u> | <u>-</u> | <u>3,011,490</u> | <u>410,000</u> | <u>2,676,632</u> | <u>381,615</u> | <u>19,263</u> | <u>14,281</u> | <u>-</u> | <u>18,215,310</u> |
| Net assets—end of year | <u>\$ 23,365,586</u> | <u>\$ -</u> | <u>\$ 2,549,731</u> | <u>\$ 410,000</u> | <u>\$ 2,420,165</u> | <u>\$ 387,498</u> | <u>\$ 20,276</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 17,577,916</u> |

Muskegon Community College
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2006

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

November 17, 2006

Board of Trustees
Muskegon Community College
Muskegon, Michigan

We have audited the financial statements of Muskegon Community College as of and for the year ended June 30, 2006 and have issued our report thereon dated November 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muskegon Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Muskegon Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 17, 2006

Board of Trustees
Muskegon Community College
Muskegon, Michigan

Compliance

We have audited the compliance of Muskegon Community College with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Muskegon Community College's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Muskegon Community College's management. Our responsibility is to express an opinion on Muskegon Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muskegon Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Muskegon Community College's compliance with those requirements.

As described in Finding 1 in Part C of the accompanying Schedule of Findings and Questioned Costs, Muskegon Community College did not comply with requirements regarding Allowable Costs/Cost Principles requirements that are applicable to its Carl D. Perkins Vocational Education Act program. Compliance with such requirements is necessary, in our opinion, for Muskegon Community College to comply with requirements applicable to that program.

In our opinion, except for noncompliance described in the preceding paragraph, Muskegon Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Board of Trustees
November 17, 2006
Page 2

Internal Control Over Compliance

The management of Muskegon Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Muskegon Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Muskegon Community College as of and for the year ended June 30, 2006 and have issued our report thereon dated November 17, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Muskegon Community College
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

| Federal grantor/pass-through grantor/program title | Federal CFDA number | Pass-through grantor's I.D. number | Entitlement program or award amount | Accrued (deferred) revenue July 1, 2005 | Cash or payments in kind received (cash basis) | Expenditures (accrual basis) | | | Accrued (deferred) revenue June 30, 2006 |
|--|---------------------------|--|--|--|--|---------------------------------|-----------------|--------------|---|
| | | | | | | Prior year | Current year | Total | |
| U.S. Department of Education | | | | | | | | | |
| Direct Programs and student financial assistance cluster | | | | | | | | | |
| College Work Study | 84.033 | P033A022052 | \$ 146,811 | \$ - | \$ 156,629 | \$ - | \$ 146,811 | \$ 146,811 | \$ (9,818) |
| Pell Grant | 84.063 | P063P021645 | 3,100,261 | - | 2,786,400 | - | 3,100,261 | 3,100,261 | 313,861 |
| Supplemental Education Opportunity Grant | 84.007 | P007A022052 | 99,775 | - | 99,775 | - | 99,775 | 99,775 | - |
| Total direct programs | | | 3,346,847 | - | 3,042,804 | - | 3,346,847 | 3,346,847 | 304,043 |
| Passed through the Michigan Department of Education: Carl D. Perkins Vocational Education Act | | | | | | | | | |
| Local Administration | 84.048 | 063250-602520 | 18,400 | - | 18,400 | - | 18,400 | 18,400 | - |
| Professional Development | | 063290-602920 | 3,329 | - | 3,329 | - | 3,329 | 3,329 | - |
| Regional Allocation | | 063510-602120 | 306,183 | - | 306,183 | - | 306,183 | 306,183 | - |
| | | | 327,912 | - | 327,912 | - | 327,912 | 327,912 | - |
| TOTAL FEDERAL AWARDS | | | \$ 3,674,759 | \$ - | \$ 3,370,716 | \$ - | \$ 3,674,759 | \$ 3,674,759 | \$ 304,043 |

Muskegon Community College
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. The value of Guaranteed Student Loans for the year ended June 30, 2006 was \$1,811,566.
4. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report schedule of expenditures of federal awards.

Revenues from federal sources per June 30, 2006
financial statements

| | |
|-----------------|------------------|
| General Fund | \$ 3,329 |
| Restricted Fund | <u>3,671,430</u> |

Expenditures per single audit report

| | |
|--|---------------------|
| Schedule of Expenditures of Federal Awards | <u>\$ 3,674,759</u> |
|--|---------------------|

Muskegon Community College
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Muskegon Community College.
2. *No* reportable conditions on internal control were disclosed by the audit of the financial statements.
3. There were *no* instances of noncompliance material to the financial statements of Muskegon Community College disclosed during the audit as reported in Part B of this schedule.
4. There were *no* reportable conditions disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and as reported in Part C of this schedule.
5. The auditors' report on compliance for the major federal award programs for Muskegon Community College expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

| <u>Name</u> | <u>CFDA Number</u> |
|--|---------------------------|
| <i>U.S. Department of Education</i> | |
| Student Financial Assistance Cluster | 84.007, 84.033 and 84.063 |
| Carl D. Perkins Vocational Education Act | 84.048 |

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Muskegon Community College was not determined to be a low-risk auditee.

Muskegon Community College
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended June 30, 2006

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

NONE

REPORTABLE CONDITIONS

NONE

C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

COMPLIANCE

U.S. Department of Education

Fiscal 2006 Finding No. 1: Documentation of Employee Time and Effort

Carl D. Perkins Vocational Education Act

CFDA: 84.048

Award Numbers: 063250-602520, 063290-602920, 063510-602120

Award Year End: September 30, 2006

Specific Requirement: Allowable Costs/Cost Principles

Criteria: The cost principle of OMB Circular A-87 requires, "... Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. ... Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation."

Condition: We noted four employees whose wages and benefits are charged partially or completely to the grant. No time studies or semi-annual time certifications were done for these employees.

Questioned Costs: \$136,393

Context: There were four employees for which Perkins time certifications were required.

Effect: The salaries and benefits charged to the grant for the employee could be disallowed.

Recommendation: The College should require all employees who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs to prepare the required documentation.

College Response: Effective December 2006, the College will implement this recommendation.

REPORTABLE CONDITIONS

NONE

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

November 17, 2006

U.S. Department of Education
Washington, D.C.

Muskegon Community College respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2005 dated November 29, 2005.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statement audit.

REPORTABLE CONDITIONS

There were *no* reportable conditions in relation to the financial statement audit.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

U.S. Department of Education

Fiscal 2005 Finding No. 1: Documentation of Employee Time and Effort

CFDA: 84.048

Award Numbers: 043250-402520, 053250-502520, 053290-502920
053510-512120

Award Year End: September 30, 2005

Condition: During our compliance tests for Allowable Costs/Cost Principles, we noted certain employees did not have semi-annual certifications or maintain time and effort distribution records in accordance with OMB Circular A-87.

Recommendation: The College should require all employees who fall under the OMB Circular-A-87 requirements for documenting time charged to and/or used for matching in federal award programs to prepare the required documentation.

Current Status: See Fiscal Finding No. 1 in our single audit report for the year ended June 30, 2006 for a similar finding noted.

U.S. Department of Education
November 17, 2006
Page 2

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS—Continued

REPORTABLE CONDITIONS

There were *no* reportable conditions reported in relation to major federal award programs.

Sincerely,

A handwritten signature in black ink that reads "Rosemary A. Zink". The signature is written in a cursive, flowing style.

Rosemary A. Zink
Associate Vice President of Administration

CORRECTIVE ACTION PLAN

November 17, 2006

U.S. Department of Education
Washington, D.C.

Muskegon Community College respectfully submits the following Corrective Action Plan for the year ended June 30, 2006.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2006

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2006 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statement audit.

REPORTABLE CONDITIONS

There were *no* reportable conditions reported in relation to the financial statement audit.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

U.S. Department of Education

Fiscal 2006 Finding No. 1: Documentation of Employee Time and Effort

Carl D. Perkins Vocational Education Act

CFDA: 84.048

Award Numbers: 063250-602520, 063290-602920, 063510-602120

Award Year End: September 30, 2006

Recommendation: The College should require all employees who fall under the OMB Circular-A-87 requirements for documenting time charged to and/or used for matching in federal award programs to prepare the required documentation.

Action Taken: Effective December 2006, the College will implement this recommendation.

REPORTABLE CONDITIONS

There were *no* reportable conditions in relation to major federal award programs.

If the U.S. Department of Education has questions regarding this plan, please call Rosemary A. Zink at (231) 777-0314.

Sincerely,

A handwritten signature in black ink that reads "Rosemary A. Zink". The signature is written in a cursive, flowing style.

Rosemary A. Zink
Associate Vice President of Administration